



THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

FINANCIAL STATEMENTS

For The Year Ended June 30, 2007



REHMANN ROBSON

Certified Public Accountants

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

For the Year Ended June 30, 2007

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-9
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	10
Statement of Activities.....	11
Fund Financial Statements:	
Balance Sheet – Governmental Funds	12
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets	13
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual - General Fund	16
Statement of Fiduciary Assets and Liabilities.....	17
Notes to the Financial Statements	18-31
Combining Fund Financial Statements:	
Combining Balance Sheet – Nonmajor Governmental Funds	32
Combining Statement of Revenue, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	33
Single Audit	
Schedule of Expenditures of Federal Awards	34-35
Notes to Schedule of Expenditures of Federal Awards	36
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Basic Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	37-38
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	39-40
Schedule of Findings and Questioned Costs	41-44



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



INDEPENDENT AUDITORS' REPORT

November 7, 2007

Board of Education
The School District of the City of Harper Woods
Harper Woods, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of School District of the City of Harper Woods, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School District of the City of Harper Woods, as of June 30, 2007, and the respective changes in financial position thereof and the budgetary comparisons for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 7, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise School District of the City of Harper Woods' basic financial statements. The combining fund statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of School District of the City of Harper Woods. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

MANAGEMENT'S DISCUSSION and ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Harper Woods School District annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2007. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Harper Woods School District financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund, the Capital Project Fund and the Debt Fund, with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Reporting the School District as a Whole - District-wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, community services, athletics, and food services. Property taxes, unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

Reporting the School District's Most Significant Funds - Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Service and Athletics Funds are examples) or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money (like bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

Governmental funds - All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in reconciliation.

The School District as Trustee - Reporting the School District's Fiduciary Responsibilities

The School District is the fiduciary for the funds held on behalf of others. All of the School District's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District is the trustee for the Special Purpose/Trust accounts. These accounts include donations or gifts designated for a specific purpose (i.e. Scholarships). It also acts as the custodial agent for the district's student activity funds.

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole and over time, may serve a useful indicator of a government's financial position. Below is a summary of the School District's net assets as of June 30, 2007 and 2006.

District's Net Assets

	Governmental Activities	
	(in millions)	
	<u>2007</u>	<u>2006</u>
Assets		
Current and other assets	\$ 13.9	\$ 28.9
Capital assets	<u>33.5</u>	<u>18.9</u>
Total assets	<u>47.4</u>	<u>47.8</u>
Liabilities		
Current liabilities	2.4	4.5
Long-term liabilities	<u>37.4</u>	<u>36.6</u>
Total liabilities	<u>39.8</u>	<u>41.1</u>
Net Asset		
Invested in capital assets – net of related debt	5.9	4.8
Restricted	0.2	.1
Unrestricted	<u>1.4</u>	<u>1.8</u>
Total net assets	<u>\$ 7.6</u>	<u>\$ 6.7</u>

The increase in total assets and total liabilities at June 30, 2007 from June 30, 2006 is directly related to the construction and renovation of the district's buildings paid for through the issuance of Building and Site Bonds. The School District's net assets were \$7.6 million at June 30, 2007. Capital assets, net of related debt totaling \$5.9 million, compares the original cost, less depreciation of the School District's capital assets, plus any unspent bond proceeds to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets, \$1.4 million, was unrestricted.

The \$1.4 million in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities. Below is a summary of the School District's changes in net assets for the years ended June 30, 2007 and 2006.

District's Changes in Net Assets

	Governmental Activities	
	(in millions)	
	<u>2007</u>	<u>2006</u>
Revenue:		
Program revenue:		
Charges for services	\$ 0.3	\$.03
Operating grants and contributions	1.3	1.2
General Revenue:		
Property taxes	3.8	3.6
State school aid	8.2	7.8
Other	<u>1.6</u>	<u>1.3</u>
Total revenue	15.2	14.2
Expenses:		
Instruction	6.6	6.4
Support services	4.7	4.5
Community services	.1	0.1
Athletics	.2	0.2
Food service	0.3	0.3
Interest on long-term debt	1.6	1.7
Unallocated depreciation	<u>.7</u>	<u>0.7</u>
Total expenses	14.3	13.9
Change in net assets	.9	0.3
Net assets, beginning of year	<u>6.7</u>	<u>6.4</u>
Net assets, end of year	<u>\$ 7.6</u>	<u>\$ 6.7</u>

As reported in the statement of activities, the cost of all of our *governmental* activities this year was \$14.3 million. Certain activities were partially funded from those who benefited from the programs (\$.3 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$1.3 million). We paid for the remaining “public benefit” portion of our governmental activities with \$3.8 million in taxes, \$8.2 million in state foundation allowance and special education, and with our other revenues, i.e., interest and general entitlements.

The School District experienced an increase in net assets of \$.9 million. The key reasons for the change in net assets was a refunding of a portion of the 2004 debt issue as well as paying down the principal of the outstanding bonds.

As discussed above, the net cost shows the financial burden that was placed on the state and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted state aid constitute the vast majority of district operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School District and balance those needs with state-prescribed available unrestricted resources.

The School District's Funds

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed this year, the governmental funds reported a combined fund balance of \$11,784,531 which is a decrease from the \$25,952,360 as of June 30, 2006. The primary reasons for the change are as follows:

In the General Fund, our principal operating fund, the fund balance decreased \$6,749, from \$2,166,439 to \$2,159,690. The change is mainly due to:

- An increase in foundation allowance revenue due to an increase in the foundation grant per pupil granted by the State from what was budgeted in June, 2006.
- An increase in regular and special program expenditures due to increases in salary and contracted services.

The Capital Projects Fund showed a net decrease of \$14.3 million (from \$23,656,359 to \$9,404,150) due to the construction of the new secondary school. The assets have moved from cash and investments into the capital asset category.

Our Special Revenue Funds for the cafeteria and athletic program showed a net increase of \$5,608 (from \$4,913 to \$10,521).

Combined, the Debt Service Funds showed a fund balance increase of \$85,521 (from \$124,649 to \$210,170). The millage rate is 7.4 mills (funding a combined Debt Service Fund for both the 2004 bonds and the 2006 Refunding bonds). The millage rate is determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Because the district participates in the State School Bond Loan Fund, it is anticipated that the millage rate of 7.4 mills will remain the same for several years, until the State Bond Loan Fund is fully repaid. Debt Service Funds fund balances are reserved since they can only be used to pay debt service obligations.

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The first adjustment to the 2006-07 budget adopted in June, 2006 occurred in October, 2006, followed by a second budget adjustment in February, 2007, before the final adjustment was adopted in June, 2007. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided with the basic financial statements.

- Revenues were actually \$11,793,965, as compared with the original budgeted amount of \$11,151,331, an increase of \$642,634. The biggest change was the state foundation grant revenue being greater than originally expected.
- Expenditures were actually \$11,408,348, as compared with \$11,160,810 originally budgeted, an increase of \$247,538. The difference was primarily caused by salary increases granted after the adoption of the original budget.
- Transfers out in support of the food service and athletic programs was actually \$392,366, as compared with \$346,659 originally budgeted, an increase of \$45,707. the largest change came from a transfer into the Athletic Fund of \$188,074, as compared with \$154,467 for 2005-06, largely due to increases in coaches' stipends which are percentages of the teachers' salaries.
- The original budget anticipated a reduction in the General fund balance of \$356,138, compared with the actual reduction of \$6,749.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2007, the School District had \$33.5 million invested in a broad range of capital assets, including land, buildings, vehicles, furniture and equipment. This year's additions of \$14.6 million included building renovations and additions, less depreciation.

	<u>2007</u>	<u>2006</u>
Land	\$ 46,749	\$ 46,749
Construction in progress	27,010,072	11,652,449
Buildings and building improvements	14,795,536	14,795,536
Furniture and equipment	3,362,993	3,347,265
Accumulated depreciation	(11,694,622)	(10,961,246)

The bond issue approved by the voters in 2004 was sold in December 2004. Renovation work on Beacon and Tyrone Elementaries was substantially completed in 2006. Construction of a new secondary school also began in 2006, and was substantially completed prior to the start of school on September 4, 2007. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At the end of this 2006-07 fiscal year, the School District had \$37.4 million in bonds outstanding versus \$37.9 million in the previous year. The School District issued new debt in the amount of \$9,950,000 for the refinancing of a portion of the 2004 bond issue, which will result in a savings in future years' interest payments. The outstanding bonds consist of the following:

2000 General Obligation Bonds (Energy Bonds)	\$ 515,000
2004 School Building and Site Bonds	24,615,000
2006 Refunding Bonds	9,950,000
Total	<u>\$ 35,080,000</u>

The state limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "Qualified Debt", i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding unqualified general obligation debt of \$515,000 is below the statutorily imposed limit.

Other obligations include amounts owed to the State Bond Loan Fund, bond premiums recognized from the issuance of the 2004 bond issuance and the 2006 bond refunding which will be amortized over the life of the bonds, accrued early retirement/severance incentives, and compensated absences. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the School District's 2007-08 fiscal year budget. The 2007-08 fiscal year budget was adopted by the Board of Education in June, 2007 as follows:

Estimated July 1, 2007 General Fund Balance	\$1,935,614
Revenue	\$11,467,051
Total Available to Appropriate	\$13,402,665
Expenditures	\$11,520,105
Budget Deficit	(\$53,054)
Estimated June 30, 2008 General Fund Balance	\$1,882,560

The actual July 1, 2007 General Fund Balance is \$2,159,690, higher than estimated in the final June, 2007 budget amendment for the 2006-07 fiscal year. This is 18.3% of the 2006-07 General Fund expenditures (totaling \$11,800,714, including transfers to the Food Service and Athletic Funds). This complies with the Board of Education policy of maintaining a General Fund Balance greater than 15% of the previous year's expenditures.

One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2007-2008 fiscal year is 25 percent and 75 percent of the February 2007 and September 2007 student counts, respectively. The 2007-08 budget was adopted in June 2007, based on an estimate of students that will be enrolled in September 2007 of 1222 (compared with student counts of 1239.8 and 1233.4 in September, 2006 and February, 2007, respectively). Approximately 90 percent of total General Fund revenue is from the foundation allowance (including the 18 mills local tax portion and the State Aid portions under the State Aid Act sections 22(a), 22(b) and the Special Education section 51(a)). Under State law, the School District cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the state's ability to fund local school operations. Based on enrollment data at the start of the 2007-08 school year, the preliminary fall student count is about 1279, higher than the 1222 estimate used in creating the 2007-08 budget. Once the final student count and related per pupil funding is validated, state law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

Since the School District's revenue is heavily dependent on state funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The foundation grant per student for Harper Woods in 2006-07 was \$8,019. The State has not yet established the foundation grant per pupil for the 2007-08 fiscal year, but the forecast is for a slight increase, compared with a \$50 decrease per pupil assumed in establishing the 2007-08 budget.

The full per pupil allocation is based on the district receiving the 18 mills of Non-Homestead taxes each year. The expiration date of the 18 mill levy is December, 2014, subject to potential Headlee Rollbacks in the future if the District's State Equalized Value (SEV) increases faster than the inflation rate,

It is also important to remember that although the State is estimating a slight increase in the per pupil allocation for the 2007-08 school year, these monies will be needed to pay for the increases in a number of expenses. After the adoption of the budget in June, a salary increase of 2% has been negotiated with the teachers. Negotiations with other employee groups and unaffiliated personnel are ongoing. Also, the student enrollment in excess of that anticipated has resulted in calling back several of the teachers who had been laid off during the spring of 2007, and several paraprofessionals have also been added to decrease the student to adult ratios in some of the classrooms.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Rick Olson, Business Manager, 20225 Beaconsfield, Harper Woods, Michigan 48225, telephone 313-245-3023.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The School District of the City of Harper Woods
Statement of Net Assets
June 30, 2007

	<u>Governmental Activities</u>
Assets	
Cash and investments	\$ 11,784,998
Receivables	1,981,959
Inventories	7,501
Prepaid costs	118,121
Capital assets, not being depreciated	27,056,821
Capital assets being depreciated, net	<u>6,463,907</u>
Total assets	<u>47,413,307</u>
Liabilities	
Accounts payable	1,346,115
Accrued payroll and other liabilities	1,010,257
Unearned revenue	45,532
Long-term liabilities:	
Due within one year	1,415,000
Due in more than one year	<u>35,995,102</u>
Total Liabilities	<u>39,812,006</u>
Net Assets	
Invested in capital assets, net of related debt	5,949,087
Restricted for debt service	210,170
Unrestricted	<u>1,442,044</u>
Total net assets	<u><u>\$ 7,601,301</u></u>

The accompanying notes are an integral part of these basic financial statements.

The School District of the City of Harper Woods
Statement of Activities
For the Year Ended June 30, 2007

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental activities:				
Instruction	\$ 6,587,787	\$ -	\$ 1,167,798	\$ (5,419,989)
Support services	4,740,312	-	-	(4,740,312)
Food services	348,007	147,051	173,295	(27,661)
Athletics	200,971	12,897	-	(188,074)
Community services	138,630	134,796	-	(3,834)
Interest on long-term debt	1,577,650	-	-	(1,577,650)
Unallocated depreciation	733,376	-	-	(733,376)
Total	<u>\$ 14,326,733</u>	<u>\$ 294,744</u>	<u>\$ 1,341,093</u>	<u>(12,690,896)</u>
General revenues:				
Taxes:				
Property taxes, levied for general purposes				1,806,295
Property taxes, levied for debt services				1,966,193
Unrestricted state aid				8,241,225
Grants and contributions not restricted to specific programs				312,398
Unrestricted investment earnings				1,271,885
Total general revenues				<u>13,597,996</u>
Change in net assets				907,100
Net assets, beginning of year				<u>6,694,201</u>
Net assets, end of year				<u><u>\$ 7,601,301</u></u>

The accompanying notes are an integral part of these basic financial statements.

FUND FINANCIAL STATEMENTS

The School District of the City of Harper Woods
Balance Sheet
Governmental Funds
June 30, 2007

	<u>General</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>					
Assets					
Cash and investments	\$ 1,118,898	\$ 10,396,705	\$ 173,946	\$ 95,449	\$ 11,784,998
Receivables	1,945,696	-	709	35,554	1,981,959
Due from other funds	89,184	3,284	35,515	3,020	131,003
Inventories	-	-	-	7,501	7,501
Prepaid items	118,121	-	-	-	118,121
TOTAL ASSETS	\$ 3,271,899	\$ 10,399,989	\$ 210,170	\$ 141,524	\$ 14,023,582
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities					
Accounts payable	\$ 56,420	\$ 995,839	\$ -	\$ -	\$ 1,052,259
Accrued payroll and other liabilities	1,010,257	-	-	-	1,010,257
Due to other funds	-	-	-	131,003	131,003
Deferred revenue	45,532	-	-	-	45,532
Total liabilities	1,112,209	995,839	-	131,003	2,239,051
Fund balances					
Reserved:					
Inventories	-	-	-	7,501	7,501
Prepays	118,121	-	-	-	118,121
Debt service	515,000	-	210,170	-	725,170
Bonded capital projects	-	9,404,150	-	-	9,404,150
Other long-term obligations	434,311	-	-	-	434,311
Unreserved, undesignated, reported in:					
General Fund	1,092,258	-	-	-	1,092,258
Special revenue funds	-	-	-	3,020	3,020
Total fund balances	2,159,690	9,404,150	210,170	10,521	11,784,531
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,271,899	\$ 10,399,989	\$ 210,170	\$ 141,524	\$ 14,023,582

The accompanying notes are an integral part of these basic financial statements.

The School District of the City of Harper Woods
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
June 30, 2007

Fund balances - total governmental funds	\$ 11,784,531
--	---------------

Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported
in the funds.

Add: capital assets not being depreciated	27,056,821
Add: capital assets being depreciated	18,158,529
Deduct: accumulated depreciation	(11,694,622)

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore
are not reported in the funds.

Deduct: bonds payable and related deferred amounts	(35,836,754)
Deduct: accrued interest on bonds payable	(293,856)
Deduct: compensated absences	(434,311)
Deduct: bond premiums	(1,139,037)

Net assets of governmental activities	<u><u>\$ 7,601,301</u></u>
---------------------------------------	----------------------------

The accompanying notes are an integral part of these basic financial statements.

The School District of the City of Harper Woods
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2007

Net change in fund balances - total governmental funds	\$	(14,167,829)
--	----	--------------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay		15,373,351
Deduct: depreciation expense		(733,376)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities		1,245,000
Deduct: proceeds from issuance of long-term liabilities net of bond discount		(10,523,376)
Add: payment to refunding bond escrow agent		9,733,423

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct: increase in accrued interest payable on bonds		(22,745)
Add: amortization of bond deferred amounts		26,639
Deduct: increase in the accrual for compensated absences		(23,987)

Change in net assets of governmental activities	\$	907,100
---	----	---------

The accompanying notes are an integral part of these basic financial statements.

The School District of the City of Harper Woods
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2007

	General	Capital Projects Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
Local sources	\$ 2,402,599	\$ 1,105,416	\$ 1,983,553	\$ 159,948	\$ 5,651,516
State sources	8,952,864	-	-	17,657	8,970,521
Federal sources	438,502	-	-	173,295	611,797
Total revenue	11,793,965	1,105,416	1,983,553	350,900	15,233,834
Expenditures					
Current:					
Instruction	6,564,044	-	-	-	6,564,044
Support services	4,705,674	-	-	-	4,705,674
Community services	138,630	-	-	-	138,630
Food services	-	-	-	348,007	348,007
Athletics	-	-	-	200,971	200,971
Debt service:					
Principal	-	-	1,245,000	-	1,245,000
Interest and fiscal charges	-	-	1,581,301	-	1,581,301
Other	-	-	50,364	-	50,364
Capital outlay	-	15,357,625	-	-	15,357,625
Total expenditures	11,408,348	15,357,625	2,876,665	548,978	30,191,616
Revenues over (under) expenditures	385,617	(14,252,209)	(893,112)	(198,078)	(14,957,782)
Other financing sources (uses)					
Issuance of long-term debt	-	-	10,690,202	-	10,690,202
Discount on bond issuance	-	-	(166,826)	-	(166,826)
Payment to bond escrow agent	-	-	(9,733,423)	-	(9,733,423)
Transfers in	-	-	188,680	203,686	392,366
Transfers out	(392,366)	-	-	-	(392,366)
Total other financing sources (uses)	(392,366)	-	978,633	203,686	789,953
Net change in fund balances	(6,749)	(14,252,209)	85,521	5,608	(14,167,829)
Fund balances, beginning of year	2,166,439	23,656,359	124,649	4,913	25,952,360
Fund balances, end of year	<u>\$ 2,159,690</u>	<u>\$ 9,404,150</u>	<u>\$ 210,170</u>	<u>\$ 10,521</u>	<u>\$ 11,784,531</u>

The accompanying notes are an integral part of these basic financial statements.

The School District of the City of Harper Woods
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual - General Fund
For the Year Ended June 30, 2007

	<u>Budget</u>			<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Local source	\$ 2,161,887	\$ 2,297,782	\$ 2,402,599	\$ 104,817
State sources	8,542,840	8,969,851	8,952,864	(16,987)
Federal sources	446,604	447,138	438,502	(8,636)
Total revenue	11,151,331	11,714,771	11,793,965	79,194
Expenditures				
Instruction				
Basic programs	5,684,791	5,783,138	5,660,778	(122,360)
Added needs	919,505	945,020	903,266	(41,754)
Total instruction	6,604,296	6,728,158	6,564,044	(164,114)
Supporting services				
Pupil	922,118	980,235	966,791	(13,444)
Instructional staff	420,897	413,929	426,429	12,500
General Administration	261,901	293,779	309,083	15,304
School administration	759,071	907,226	891,601	(15,625)
Business	398,480	404,864	375,524	(29,340)
Operations and maintenance	1,400,631	1,476,755	1,451,064	(25,691)
Pupil transportation services	196,174	199,308	234,185	34,877
Central Services	64,851	49,150	50,997	1,847
Total supporting services	4,424,123	4,725,246	4,705,674	(19,572)
Community service	127,751	141,631	138,630	(3,001)
Payments to other public schools	4,640	-	-	-
Total expenditures	11,160,810	11,595,035	11,408,348	(186,687)
Revenues over (under) expenditures	(9,479)	119,736	385,617	265,881
Other financing sources (uses)				
Transfers out	(346,659)	(350,561)	(392,366)	(41,805)
Net change in fund balance	(356,138)	(230,825)	(6,749)	224,076
Fund balance, beginning of year	2,166,439	2,166,439	2,166,439	-
Fund balance, end of year	<u>\$ 1,810,301</u>	<u>\$ 1,935,614</u>	<u>\$ 2,159,690</u>	<u>\$ 224,076</u>

The accompanying notes are an integral part of these basic financial statements.

The School District of the City of Harper Woods
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2007

	Student Activities Agency Fund
Assets	
Cash	<u>\$ 119,163</u>
 Liabilities	
Due to student groups	<u>\$ 119,163</u>

The accompanying notes are an integral part of these basic financial statements.

NOTES to the FINANCIAL STATEMENTS

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

School District of the City of Harper Woods (the “District”) has followed the guidelines of the Governmental Accounting Standards Board’s Statements No. 14 and No. 39 and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year ended 2006.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements. However, agency funds do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, intergovernmental revenues, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *capital projects fund* accounts for the erecting, furnishing and equipping of a new middle/high school building, as well as acquisition of capital assets and renovation of certain other District facilities.

The *debt service* fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs.

Additionally, the District reports the following fund types:

The *special revenue funds* are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes, where there is a need to determine the results of operations.

The *agency fund* accounts for assets held for other groups and organizations and is custodial in nature.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

D. Assets, liabilities and equity

1. *Deposits and investments*

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the District are reported at fair value.

2. *Receivables and payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans).

3. *Inventories and prepaid items*

All inventories are valued at cost using the first-in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. *Capital assets*

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and building improvements	20-50
Furniture and equipment	5-10
Buses and other vehicles	5-10

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

5. *Compensated absences*

It is the District's policy to permit employees to accumulate various earned but unused vacation and sick pay benefits. These are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

Benefits are accrued based on various contract stipulations and lengths of service for the various bargaining units.

6. *Long-term obligations*

In the government-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net assets. Where applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received in debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual proceeds received, are reported as debt service expenditures.

7. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. **Budgetary information**

The General and Special Revenue funds are under formal budgetary control. Budgets shown in the financial statements are adopted annually on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. The budgets for the General and Special Revenue Funds are adopted on a functional basis.

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

All annual appropriations lapse at fiscal year end.

During the year ended June 30, 2007, the District incurred expenditures in excess of the amounts appropriated as disclosed on the Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund. Available fund balance and favorable revenue variances were used to offset the expenditure variances.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets follows:

Statement of Net Assets

Cash and investments	\$ 11,784,998
----------------------	---------------

Statement of Fiduciary Net Assets

Cash and investments	<u>119,163</u>
----------------------	----------------

\$ 11,904,161

These balances are categorized for note disclosures as follows:

Money Market investments	\$ 107,880
MILAF investment funds	1,512,607
U.S. Treasury securities	3,318,206
U.S. Agency investments	<u>6,965,468</u>

\$ 11,904,161

Statutory Authority

Michigan law authorizes the District to deposit and invest in:

- (a) Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

- (b) Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- (e) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- (f) Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

The District's investment policy allows for all of these types of investments.

Investments

The District chooses to disclose its investments by specifically identifying each. As of year end, the District had the following investments.

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
JP Morgan Chase money market funds	n/a	\$ 107,880	not rated
Michigan Liquid Asset Fund	n/a	1,512,607	S&P-AAAm
US Treasury Note	8/15/07	445,847	N/A
US Treasury Note	11/15/07	731,818	N/A
US Treasury Note	7/15/07	1,332,621	N/A
FNMA Note	8/15/07	1,244,611	S&P-AAA
FNMA Note	8/15/07	1,276,400	S&P-AAA
FHLB Note	9/14/07	2,654,173	S&P-AAA
FNMA Note	11/15/07	1,076,523	S&P-AAA
FHLB Note	1/15/08	1,069,875	S&P-AAA
FHLB Note	3/14/08	<u>451,806</u>	S&P-AAA
		<u>\$11,904,161</u>	

Deposit and investment risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified above. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment credit risk. Credit risk ratings on investments are noted above.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the District does not have a policy for investment custodial credit risk. The District has a custodial credit risk exposure of \$10,283,674 on certain of the investments listed above because the related securities are uninsured, unregistered and held by the District's brokerage firm which is also the counterparty for these securities.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

B. Receivables

	Governmental Activities			Total	Amounts Not Expected to be Collected Within One Year
	<u>General</u>	<u>Debt</u>	<u>Nonmajor Funds</u>		
Receivables:					
Accounts	\$ 241	\$ -	\$ 25,090	\$ 25,331	\$ 25,000
Taxes	197,294	709	-	198,003	-
Intergovernmental	1,748,161	-	10,464	1,758,625	
Total receivables	<u>\$ 1,945,696</u>	<u>\$ 709</u>	<u>\$ 35,554</u>	<u>\$ 1,981,959</u>	<u>\$ 25,000</u>

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

C. Capital assets

Capital assets activity for the year ended June 30, 2007 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	\$ 46,749	\$ -	\$ -	\$ 46,749
Construction in progress	11,652,449	15,357,623	-	27,010,072
Total capital assets not being depreciated	11,699,198	15,357,623	-	27,056,821
Capital assets being depreciated				
Buildings and improvements	14,795,536	-	-	14,795,536
Furniture and equipment	3,347,265	15,728	-	3,362,993
Total capital assets being depreciated	18,142,801	15,728	-	18,158,529
Accumulated depreciation				
Buildings and improvements	9,075,008	543,260	-	9,618,268
Furniture and equipment	1,886,238	190,116	-	2,076,354
Total accumulated depreciation	10,961,246	733,376	-	11,694,622
Total capital assets being depreciated, net	7,181,555	(717,648)	-	6,463,907
Capital assets, net	\$ 18,880,753	\$ 14,639,975	\$ -	\$ 33,520,728

Depreciation expense of \$733,376 was charged to the function “unallocated depreciation”.

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

D. Payables

Accounts payable and accrued liabilities as of June 30, 2007 for the District's individual major funds and nonmajor funds in the aggregate, are as follows:

	<u>General Fund</u>	<u>Capital Projects</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Fund Financial Statements:				
Accounts payable	\$ 56,420	\$ 995,839	\$ -	\$ 1,052,259
Salaries and benefits payable	<u>1,010,257</u>	<u>-</u>	<u>-</u>	<u>1,010,257</u>
	<u>\$ 1,066,677</u>	<u>\$ 995,839</u>	<u>\$ -</u>	2,062,516
District-Wide Financial Statements:				
Accrued interest on long-term debt				<u>293,856</u>
				<u>\$ 2,356,372</u>

E. Interfund receivables, payables and transfers

At June 30, 2007, interfund receivables and payables in the fund financial statements consisted of the following:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 89,184	\$ -
Capital Projects Fund	3,284	-
Debt Service Fund	35,515	-
Other Governmental Funds	<u>3,020</u>	<u>131,003</u>
	<u>\$ 131,003</u>	<u>\$ 131,003</u>

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

For the year ended June 30, 2007, interfund transfers consisted of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$ -	\$ 392,366
Debt service fund	188,680	
Non-major funds:		
Food Services	15,612	
Athletics	<u>188,074</u>	<u>-</u>
	<u>\$ 392,366</u>	<u>\$ 392,366</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

For the year ended June 30, 2007, the District transferred funds to subsidize the food services fund and athletics program and to provide funding for energy bond debt service.

F. Long-term debt

The following is a summary of bond, note, and compensated absence transactions of the District for the year ended June 30, 2007:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities					
General obligation					
bonds	\$35,530,000	9,950,000	10,400,000	\$35,080,000	\$1,340,000
Deferred amounts	1,193,277	(745,249)	26,639	421,389	
School bond loan fund	734,200	740,202	-	1,474,402	-
Retirement incentive	80,000	-	40,000	40,000	40,000
Compensated absences	<u>330,324</u>	<u>63,987</u>	<u>-</u>	<u>394,311</u>	<u>35,000</u>
	<u>\$ 37,867,801</u>	<u>\$ 10,008,940</u>	<u>\$10,466,639</u>	<u>\$37,410,102</u>	<u>\$1,415,000</u>

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

Bonds payable at June 30, 2007, are comprised of the following issues:

General Obligation Bonds:

\$1,435,000 2000 Energy Bonds, due in
annual installments of \$165,000 to \$180,000
through the year 2010; plus interest at 5.0% to 5.1% \$ 515,000

\$35,825,000 2004 Building & Site Bonds, due in annual
installments of \$870,000 to \$1,475,000 through the
year 2029; plus interest at 2.5% to 5.0% 24,615,000

\$9,950,000 2006 Refunding Bonds, due in
annual installments of \$50,000 to \$1,785,000
through year 2034; plus interest at 4.0% to 4.125% 9,950,000

\$ 35,080,000

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ended June 30	Principal	Interest	Total
2008	\$ 1,340,000	\$ 1,544,749	\$ 2,884,749
2009	1,360,000	1,506,374	2,866,374
2010	1,360,000	1,461,674	2,821,674
2011	875,000	1,413,769	2,288,769
2012	900,000	1,383,144	2,283,144
2013-2017	4,900,000	6,362,593	11,262,593
2018-2022	5,600,000	5,111,655	10,711,655
2023-2027	6,920,000	3,591,555	10,511,555
2028-2031	8,265,000	1,803,018	10,068,018
2033-2034	3,560,000	220,481	3,780,481
	<u>\$ 35,080,000</u>	<u>\$ 24,399,012</u>	<u>\$ 59,479,012</u>

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

The School Bond Loan Fund represents amounts borrowed from the State of Michigan School Bond loan program to supplement property tax revenue for making payments on the District's general obligation bonds. Although interest accrues each year, no payment is due until such time as the District's property tax revenue is sufficient to support the Debt Service requirements on the general obligation bonds. Changes to the School Bond Loan Fund for the year ended June 30, 2007, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Beginning balance	\$ 734,200	\$ -	\$ 734,200
Additions	740,202	36,391	776,593
Deletions	<u>-</u>	<u>-</u>	<u>-</u>
Ending balance	<u>\$ 1,474,402</u>	<u>\$ 36,391</u>	<u>\$ 1,510,793</u>

Compensated absences are generally liquidated by the general fund.

Advance Refunding. In the current year, the District issued \$9,950,000 of general obligation refunding bonds to provide resources to purchase U.S. Government securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments on \$9,155,000 of refunded debt. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. The balance of these defeased bonds outstanding as of June 30, 2007 for this current year refunding was \$9,155,000.

The current year refunding was undertaken to reduce future debt service payments (principal and interest) by \$729,682, and resulted in an economic gain of \$511,690.

G. Commitments and contingencies

Under the terms of various Federal and State grants and regulatory requirements, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement of the grantor or regulatory agencies. However, management does not believe such disallowances, if any, would be material to the financial position of the District.

As is the case with other entities, the District faces exposure from potential claims and legal proceedings involving environmental matters. No such claims or proceedings have been asserted as of June 30, 2007.

The District is obligated for construction contracts relating to building projects in the amount of \$5,060,971 at June 30, 2007.

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

IV. OTHER INFORMATION

A. Risk management

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The District has purchased commercial insurance for workers compensation and participates in the SET-SEG (risk pool) for claims relating to property and general liability. The District also participates in the MESSA risk pool for claims related to health medical claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

B. Property taxes

Property taxes are assessed as of December 31, and attach as an enforceable lien on property as of December 1 of the following year. Taxes are levied by the City of Harper Woods on July 1st. All levies become delinquent on February 14. The Delinquent Tax Revolving Fund of Wayne County advances delinquent real taxes to the District.

C. Defined benefit pension plan

Plan Description

The School District of the City of Harper Woods contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits, and death benefits to plan members and beneficiaries. Benefit provisions are established and must be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling 1-800-381-5111.

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

Funding Policy

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The School District of the City of Harper Woods is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The current rate is 17.74% of annual covered payroll. The contribution requirements of plan members and the School District of the City of Harper Woods are established by Michigan State statute and may be amended only by action of the State Legislature. The School District's contributions to MPSERS for the years ended June 30, 2007, 2006 and 2005 were \$1,208,527, \$1,052,166, and \$907,079, respectively, equal to the required contributions for each year.

Other Postemployment Benefits

Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverage's for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

D. Bonded Construction Costs

The Capital Projects Funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the District has complied with the applicable provisions of §1351a of the Michigan Revised School Code.

* * * * *

COMBINING FUND
FINANCIAL STATEMENTS

The School District of the City of Harper Woods
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2007

	<u>Special Revenue Funds</u>			Total Nonmajor Governmental Funds
	<u>Food Services</u>	<u>Athletics</u>	<u>School Store</u>	
<u>ASSETS</u>				
Assets				
Cash and investments	\$ 95,376	\$ 73	\$ -	\$ 95,449
Due from other governmental units	35,554	-	-	35,554
Due from other funds	-	-	3,020	3,020
Inventories	5,608	-	1,893	7,501
TOTAL ASSETS	<u>\$ 136,538</u>	<u>\$ 73</u>	<u>\$ 4,913</u>	<u>\$ 141,524</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities				
Due to other funds	<u>130,930</u>	<u>73</u>	<u>-</u>	<u>131,003</u>
Total liabilities	<u>130,930</u>	<u>73</u>	<u>-</u>	<u>131,003</u>
Fund Balances				
Reserved for inventories	5,608	-	1,893	7,501
Unreserved, undesignated	<u>-</u>	<u>-</u>	<u>3,020</u>	<u>3,020</u>
Total fund balances	<u>5,608</u>	<u>-</u>	<u>4,913</u>	<u>10,521</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 136,538</u>	<u>\$ 73</u>	<u>\$ 4,913</u>	<u>\$ 141,524</u>

The School District of the City of Harper Woods
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2007

	<u>Special Revenue Funds</u>			Total Nonmajor Governmental Funds
	<u>Food Services</u>	<u>Athletics</u>	<u>School Store</u>	
Revenues				
Local	\$ 147,051	\$ 12,897	\$ -	\$ 159,948
State	17,657	-	-	17,657
Federal	173,295	-	-	173,295
	<u>338,003</u>	<u>12,897</u>	<u>-</u>	<u>350,900</u>
Expenditures				
Food services	348,007	-	-	348,007
Athletics	-	200,971	-	200,971
	<u>348,007</u>	<u>200,971</u>	<u>-</u>	<u>548,978</u>
Revenues under expenditures	(10,004)	(188,074)	-	(198,078)
Other financing sources (uses)				
Transfers in	15,612	188,074	-	203,686
	<u>5,608</u>	<u>-</u>	<u>-</u>	<u>5,608</u>
Net change in fund balances				
Fund balances, beginning of year	-	-	4,913	4,913
Fund balances, end of year	<u>\$ 5,608</u>	<u>\$ -</u>	<u>\$ 4,913</u>	<u>\$ 10,521</u>

SINGLE AUDIT

HARPER WOODS SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2007

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Program or Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue at July 1, 2006	Cash Received/ Payments In Kind	Expenditures	Accrued (Deferred) Revenue at June 30, 2007
U.S. Department of Agriculture:							
Direct Program:							
Food Distribution Program:							
Entitlement Commodities 2006/2007	10.550	\$ 12,208	\$ -	\$ -	\$ 12,208	\$ 12,208	\$ -
Bonus Commodities 2006/2007	10.550	57	-	-	57	57	-
Total Food Distribution Program			-	-	12,265	12,265	-
Passed Through the Michigan Department of Education:							
Child Nutrition Cluster:							
National School Breakfast Program 2006/2007	10.553	24,866	-	-	23,429	24,866	1,437
National School Lunch Program 2006/2007	10.555	136,164	-	-	129,277	136,164	6,887
Total Child Nutrition Cluster			-	-	152,706	161,030	8,324
Total U.S. Department of Agriculture			-	-	164,971	173,295	8,324
U.S. Department of Education:							
Passed Through the Michigan Department of Education:							
Title I							
Project 061530/0506	84.010	98,928	-	5,000	5,000	-	-
Project 071530/0607	84.010	103,289	-	-	59,061	94,653	35,592
Total Title I			-	5,000	64,061	94,653	35,592
Title II Part A							
Project 070520/0607	84.367	60,356	-	-	48,000	60,356	12,356
Title II Part D							
Project 074290/0607	84.318	1,060	-	-	1,060	1,060	-
Title V							
Project 070250/0607	84.298	244	-	-	244	244	-
Emergency Impact Aid - Hurricane Katrina Grant	84.938	675	-	-	675	675	-
Total Passed Through the State of Michigan Department of Education			-	5,000	114,040	156,988	47,948

HARPER WOODS SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2007

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Program or Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue at July 1, 2006	Cash Received/ Payments In Kind	Expenditures	Accrued (Deferred) Revenue at June 30, 2007
I.D.E.A. Flow-Through							
Project: 060460/0506	84.027A	\$ 268,250	\$ -	\$ 26,825	\$ 26,825	\$ -	-
Project: 070460/0506	84.027A	261,002	-	-	138,153	261,002	122,849
Total I.D.E.A. Flow-Through			-	26,825	164,978	261,002	122,849
Early Childhood Initiative							
Project 2005-2006	84.027	2,378	-	2,378	2,378	-	-
Project 2006-2007	84.027	2,400	-	-	1,200	2,400	1,200
Total Childhood Initiative			-	2,378	3,578	2,400	1,200
Preschool Incentive							
Project number 060460/0506	84.173	14,007	-	1,401	1,401	-	-
Project number 070460/0607	84.173	10,512	-	-	2,500	10,512	8,012
Total I.D.E.A. Preschool			-	1,401	3,901	10,512	8,012
Safe and Drug Free Schools and Communities:							
Project 2006-2007	84.186	2,600	-	-	2,600	2,600	-
Total Passed Through the Wayne County Regional Educational Services Agency			-	30,604	175,057	276,514	132,061
Total U.S. Department of Education			-	35,604	289,097	433,502	180,009
U.S. Department of Homeland Security:							
Homeland Security Grant - 2005/2006	97.004	4,680	-	678	678	-	-
Total expenditures of federal awards			\$ -	\$ 36,282	\$ 454,746	\$ 606,797	\$ 188,333

Reconciliation of Basic Financial Statements Federal Revenue With Schedule of Expenditures of Federal Awards:

Federal revenue per financial statements	\$ 611,797
Revenue deferred in prior year and on SEFA prior year, recorded as revenue in financial statements in current year - Title I	(5,000)
Federal expenditures per SEFA above	<u>\$ 606,797</u>

SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2007

1. FEDERAL AWARDS

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of School District of the City of Harper Woods (the "District"). Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the Schedule.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

The reporting entity of School District of the City of Harper Woods is defined in Note I of the District's basic financial statements.

2. BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting which is described in Note I of the District's basic financial statements.



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**



**INDEPENDENT AUDITORS' REPORT ON INTERNAL
CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF BASIC FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

November 7, 2007

Board of Education
School District of the City of Harper Woods
Harper Woods, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of ***SCHOOL DISTRICT OF THE CITY OF HARPER WOODS***, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 7, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The School District of the City of Harper Woods' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The School District of the City of Harper Woods' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of The School District of the City of Harper Woods' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects The School District of the City of Harper Woods' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School District of the City of Harper Woods' financial statements that is more than inconsequential will not be prevented or detected by The School District of the City of Harper Woods' internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2007-1 and 2007-2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by The School District of the City of Harper Woods' internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2007-1 and 2007-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The School District of the City of Harper Woods' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of The School District of the City of Harper Woods in a separate letter dated November 7, 2007.

The School District of the City of Harper Woods' responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, management, the Board of Education, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

November 7, 2007

Board of Education
School District of the City of Harper Woods
Harper Woods, Michigan

Compliance

We have audited the compliance of **SCHOOL DISTRICT OF THE CITY OF HARPER WOODS** with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. School District of the City of Harper Woods' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of School District of the City of Harper Woods' management. Our responsibility is to express an opinion on School District of the City of Harper Woods' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about School District of the City of Harper Woods' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on School District of the City of Harper Woods' compliance with those requirements.

In our opinion, School District of the City of Harper Woods complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2007-3.

Internal Control Over Compliance

The management of the School District of the City of Harper Woods is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School District of the City of Harper Woods' internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The School District of the City of Harper Woods' responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the School District of the City of Harper Woods' responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the audit committee, management, the Board of Education, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Lehmann Johnson", is positioned in the lower right area of the page.

SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2007

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

X yes ____ no

Significant deficiencies identified
not considered to be material weaknesses?

____ yes X none reported

Noncompliance material to financial statements
noted?

____ yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified?

____ yes X no

Significant deficiency identified
not considered to be material weaknesses?

____ yes X none reported

Type of auditors' report issued on compliance
for major programs:

Unqualified

Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section 510(a)?

X yes ____ no

SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

FOR THE YEAR ENDED JUNE 30, 2007

SECTION I - SUMMARY OF AUDITORS' RESULTS (Concluded)

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027, 84.173	Special Education Cluster
Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$300,000</u>
Auditee qualified as low-risk auditee?	<u> X </u> yes <u> </u> no

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2007-1 Preparation of Financial Statements in Accordance with GAAP

Criteria: All school districts are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the district's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting)

Condition: As is the case with many smaller and medium-sized entities, the district has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the district's ability to prepare financial statements in accordance with GAAP is based, in part, on its external auditors, who cannot by definition be considered a part of the government's internal controls.

Cause: Due to the lack of knowledge, expertise and education relative to preparing GAAP financial statements possessed by the finance department, management has made the decision that it is in their best interest to outsource the preparation of its annual financial statements to the auditors rather than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

Effect: As a result of this condition, the district lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

FOR THE YEAR ENDED JUNE 30, 2007

**View of
Responsible**

Officials: The district has evaluated the benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the district to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

Finding 2007-2 Closing Process and Audit Adjustments

Criteria: The District is responsible for the reconciliation of all general ledger accounts to their proper underlying balances for the purpose of creating a reasonably adjusted trial balance, from which the basic financial statements are derived. The auditors should be able to audit accounts which have been adjusted through the closing process.

Condition: At the time of our scheduled field work in September, the District's funds were not effectively closed out and in a proper state for audit. Bank accounts were not reconciled, and several other details of balance sheet accounts were not provided. Several significant adjustments were necessary to agree key accounts to their proper underlying balances, many affecting entries between funds.

Cause: Internal controls did not detect all adjustments necessary to properly record year-end adjustments in the current year or the prior year. Also, the District had a transition in its Business staff during the year, and was without a Business Manager for a period of time. Furthermore, the District's administrative office, which includes the Business Office, relocated to a new building.

Effect: As a result of this condition, the District was not able to produce accurate financial information, which resulted in the audit being delayed.

**View of
Responsible**

Officials: The District had a transition in the Business Manager position during the year, and also the Business Office moved locations during the late summer. Furthermore, the District is in the middle of a large construction project, which used significant time of the Business Office staff during the year. These disruptions contributed to the lack of readiness on the part of the District. In the future, we are going to analyze details of account balances periodically during the year, and make changes to our year-end closing process.

SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Concluded)

FOR THE YEAR ENDED JUNE 30, 2007

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2007-3: Allocation and Certification of Payroll Expenditures

Criteria:	Office of Management and Budget Circular No. A-87, Cost Principles for State, Local, and Indian Tribal Governments, requires that when employees work on multiple activities, the distribution of their salaries or wages must be supported by personnel activity reports or a statistical sampling system that has been approved by the cognizant Federal agency. The Circular also requires that where employees are expected to work solely on a single federal award, charges for their salaries must be supported by at least semi-annual certifications that they worked solely on that program for the period covered by the certification.
Condition:	During the year ended June 30, 2007, the District was allocating payroll charges to several programs, including the Special Education Cluster based on approved program budgets.
Cause:	The District believed that the program budgets met the requirement for time distribution requirements.
Effect:	This condition increases the risk that the District could report an incorrect amount for expenditures related to federal grant programs.
Recommendation:	We recommend that the District use personnel activity reports, or other acceptable documentation as required by federal regulations, to determine the activity account distributions of employee efforts on a bi-weekly basis.
View of Responsible Officials:	In the next fiscal year, the District will require the use of personnel activity reports in order to document the time of co-funded employees charged to federal programs.

SECTION IV – PRIOR YEAR FINDINGS

No matters reported.

* * * * *



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



November 7, 2007

To the Board of Education of the
The School District of the City of Harper Woods
Harper Woods, Michigan

We have audited the financial statements of the School District of the City of Harper Woods for the year ended June 30, 2007, and have issued our report thereon dated November 7, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter dated August 7, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the School District of the City of Harper Woods' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the School District of the City of Harper Woods' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the School District of the City of Harper Woods' compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the School District of the City of Harper Woods' compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the School District of the City of Harper Woods' compliance with those requirements.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by the School District of the City of Harper Woods are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the School District of the City of Harper Woods during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the School District of the City of Harper Woods' financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, several of the adjustments we proposed and recorded by the School District of the City of Harper Woods, either individually or in the aggregate, indicate matters that could have a significant effect on the School District of the City of Harper Woods' financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the School District of the City of Harper Woods' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum are intended for the use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, prominent 'L' at the beginning.

The School District of the City of Harper Woods

Comments and Recommendations

For the Year Ended June 30, 2007

In planning and performing our audit of the financial statements of the School District of the City of Harper Woods as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the School District of the City of Harper Woods' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District of the City of Harper Woods' internal control. Accordingly, we do not express an opinion on the effectiveness of the School District of the City of Harper Woods' internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. The deficiencies we noted that we consider to be significant deficiencies are described in the Schedule of Findings and Questioned Costs in the District's Single Audit report.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. There were deficiencies that we consider to be material weaknesses in the Schedule of Findings and Questioned Costs of the District's Single Audit report.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. Other matters that came to our attention during the conduction of our audit are as follows:

Other Matters

Bank Reconciliation Review

Presently, there is no standardized form utilized for bank reconciliation documentation, nor is there an independent review of the completed bank reconciliations by a person independent of the person preparing the bank reconciliations.

In order to enhance the internal controls in this key process, we recommend that the District use a standardized bank reconciliation form that will facilitate reconciling the adjusted bank or investment balance to the related general ledger account. Also, a person independent of the preparer should review the bank reconciliations and document the review by initialing and dating the form soon after the bank reconciliations are prepared.

The School District of the City of Harper Woods

Comments and Recommendations (Concluded)

For the Year Ended June 30, 2007

Payroll review

Presently, there is no independent review of the payroll register by someone independent of the payroll preparation function. In order to enhance the internal controls in this area, we recommend that the payroll register be approved by an individual independent of the payroll check preparation function before the payroll checks are issued.

Athletic event cash procedures

Cash is collected at the gate for certain sporting events including football and basketball games. Tickets are not utilized for these events at this time, and no preprinted form that summarizes the cash collections is prepared.

We recommend that the District consider tickets or some other system in order to enhance the internal controls over the cash received at these games, and to provide a means of verifying the cash that should have been collected at the games. Also, a standard form can be used that provides for beginning and ending ticket numbers, signatures of the cashiers, and a tally of cash collected that can be used for central office oversight and monitoring.

Cash receipting procedures

Presently, the general business office and latchkey/preschool operation do not use numeric receipt books, which results in weak internal controls in this area.

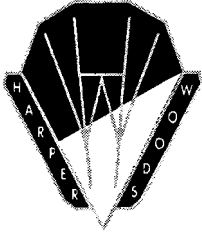
We recommend that three-part numeric receipts be used in these cash receipting areas, and that the deposit slip be compared to the sequence of receipts written by an individual other than the cashier.

* * * * *

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

20225 BEACONSFIELD • HARPER WOODS, MICHIGAN 48225-1395

TEL. (313) 839-1296 • FAX (313) 839-1249



Office of the
Superintendent

November 13, 2007

Corrective Action Plan For 2006-07 Audit Schedule of Findings and Questioned Costs

I have reviewed the Schedule of Findings and Questioned Costs prepared by our district auditors, Rehmann Robson, CPA's, included as pages 41-44 of the "Financial Statements for the year ended June 30, 2007, for the School District of the City of Harper Woods. In Sections II and III, there are the following findings:

Finding 2007-1

Finding 2007-2

Finding 2007-3

We adopt as our Corrective Action Plan the respective "View of Responsible Officials" stated for each finding.

Sincerely,

Rick Olson, Business Manager
Harper Woods Schools
20225 Beaconsfield St., Harper Woods, MI 48225
313-839-1296 Office or 313-245-3023 Direct Line
517-673-6846 or 866-373-1627 Cell
rick.olson@hwoods.k12.mi.us

Graduates will create the families, careers, and communities that are aligned with their aspirations and values.

It is the policy of the School District of the City of Harper Woods that no discriminatory practices based on gender, race, religion, color, age, national origin, disability, height, weight, or any other status covered by federal, state or local law be allowed in providing instructional opportunities, programs, services, job placement assistance, employment or in policies governing student conduct and attendance. Any person suspecting a discriminatory practice should contact the Secondary School Principal at the School District of the City of Harper Woods, 20225 Beaconsfield, Harper Woods, MI 48225, or call (313) 839-7400.